Paper / Subject Code: 67404 / Advanced Accountancy : Course III - Advanced Financial Management.

MCOM (Sem-IV)

14/12/18

Q.P. Code :05068

[Time: 2 Hours] [Marks:60]

Please check whether you have got the right question paper.

N.B:
1. All questions are **compulsory** carrying **15 Marks** each.
2. **Working notes and assumptions should from part of your answer.**
3. Use of **simple calculator** is **allowed.**

Q.1 (A) Abhinav and Raghav Industries Ltd. is considering two mutually exclusive projects investments either Rs. 495 lakhs in fully automatic machines or Rs. 350 lakhs in semi-automatic machine. The expected profits before depreciation and income tax for next 5 years of operation are depicted below. PV(Present Value) of Rs. 1 @ 10% for 5 years **15**

		Estimated profit before Depreciation & Income Tax	
YEAR	PV of Rs.1 @ 10% discount factor	Fully Automatic machine (Rs. in lakhs)	Semi-Automatic machine (Rs. in lakhs)
1	0.909	125	80
2	0.826	150	90
3	0.751	175	100
4	0.683	195	105
5	0.621	210	110

Both the machines have realizable scrap value equivalent to their written down value at the end of fifth year. The company provides depreciation on machinery @ 15% on written down value basis and pays income tax @ 35%. You are required to calculate: - Net Present Value (NPV) and Profitably Index (PI) of each project @ 10 % discounting factors.

Note: 1. You are required to do all calculations upto two decimal places.

2. You are required to offer your comments as to which proposal should be chosen by the management for investment.

OR

(B) Sangeeta Industries Ltd. is considering two mutually exclusive project for investments, either Rs. 195 lakhs in fully automatic machine or Rs.150 lakhs in semi-automatic machine. Both the machines have scrap value at the end of eight years to their respective written down value. The expected profits before depreciation and income tax are as follows. Present value of Rs 1 @ 10 % rate for 8 years **15**

		Estimated profits before depreciation and Income Tax.	
Year	PV of Rs.1 @ 10% discount factor	Fully Automatic Machine(Rs. in lakhs)	Semi-Automatic Machine(Rs. in lakhs)
1	0.909	36	23
2	0.826	38	24
3	0.751	40	25
4	0.683	42	26
5	0.621	44	27
6	0.564	46	28
7	0.513	47	29
8	0.467	48	30

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The company provides depreciation on machinery @ 15 % p.a. on written down value basis and pays income tax @ 39%. You are required to calculate:- Net Present Value (NPV) and profitability Index (PI) of each projects @ 10% discounting factor

Note : 1. You are required to do all calculations upto two decimal places

2. You are required to offer your comments as to which proposal should be chosen by the management for investment

Q.2 (A) Alfa Enterprise requires 90,000 units of a certain item annually. The cost per unit is Rs 3, the cost per purchase order Rs. 300 and the inventory carrying cost Rs 6 per unit per year.

i) What is the Economic Order Quantity (EOQ)?

ii) What should the firm do if the suppliers offers discount as below:

Order quantity (unit)	Discount %
4500 - 5999	2%
6000 and above	3%

OR

(B) A firm purchases 2,000 units of a particulars items per year at an unit cost of Rs. 20. The ordering cost is Rs. 50 per order and the inventory carrying cost is 25%. Determine the Economic order quantity and the minimum total cost including purchase cost.

If a 3% discount is offered by the supplier for purchase in lots of 1,000 units, should the firm accept the offer.

Q.3 (A) Sujhata Garments Ltd. manufacturers readymade garments and sells them on credit basis through a network of dealers. Its present sale is Rs 60 lakhs per annum with 20 days credit period. The company is contemplating an increase in the credit period with a view to increasing sales. Present variable costs are 70% of sales and total fixed costs Rs. 8 lakhs per annum. The company expected pre- tax return on investment @ 25% (based on average investment in receivable at Total cost). Some other details are given as under:- 15

Proposed credit policy	Average collection period (days)	Expected Annual sales (Rs. in lakhs)
I	30	65
II	40	70
III	50	74
IV	60	75

Which credit policy should the company adopt? Assume 360 days a year. Calculations should be made upto two digits after decimal.

(B) Apple Ltd. wants you to prepare the cash budget of the company for the three months from July to September, 2016. You are given the following information. 15

2016	Sales(Rs.)	Purchase (Rs.)	Wage expenses (Rs.)	Other Expenses(Rs.)
April	60,000	20,000	15,000	10,000
May	50,000	20,000	15,000	10,000
June	80,000	40,000	15,000	10,000
July	1,00,000	50,000	15,000	15,000
August	1,40,000	70,000	25,000	20,000
September	1,60,000	60,000	25,000	20,000
			30,000	20,000

a) Sales are 20% cash and the balance at two months credit.
b) Purchase are at one month's credit subjects to a cash discount of 5 %.
c) Wages are paid 1/2 months in arrear and other expenses are paid one month in arrear.
d) During August 2016 the company pays a dividend of 15 % on its equity capital of Rs. 2,00,000 and during September 2016 paid installment of Rs. 25,000 for plant purchased.
e) It is expected that at the end of June, 2016 there will be cash balance of 14,000.

Q.4 (A) State whether the following statements are True or False. 08

1) Interest on debentures is a tax deductible expense.
2) Capital budgeting is done to evaluate short term investment proposals.
3) Permanent working capital is the maximum capital that must be maintained.
4) Stock of finished goods should be valued at cost of production
5) Reduced payment of dividend improves liquidity.
6) Raw materials is not a part of inventory.
7) Default cost is the cost of receivables.
8) Depreciation is an internal source of finance.

(B) Match the following: 07

Group A	Group B
▪ Negative working capital	• Non Refundable
▪ Scrap value	• Possession of goods with the borrower
▪ Equity share capital	• Technique of Inventory control
▪ Fluctuation in prices	• Added to last year's cash inflow
▪ Hypothecation	• Speculative Motive
▪ ABC Analysis	• Excess of Current Liabilities over Current Assets
▪ Cost of storage	• Carrying Cost
	• Ordering Cost

OR

Q.4 (B) Short notes:- **(any Three)** 15

i) Need for short term Financing
ii) Factors determining working capital Requirements
iii) Selection criteria for marketable securities
iv) Motives for holding inventories
v) VED Analysis
